

IZONE INTERNATIONAL LTD.

FINANCIAL STATEMENTS

FEBRUARY 28, 1989

To the Shareholders of
Izone International Ltd.:

We have examined the balance sheet of Izone International Ltd. as at February 28, 1989 and the statements of operations and activities and changes in financial position for the year then ended. Our examination was made on a basis with generally accepted auditing standards, and a satisfactory opinion with these and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at February 28, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles and that in a better position with that of the preceding year.

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Chartered Accountants

Price Waterhouse

July 21, 1989

AUDITORS' REPORT

To the Shareholders of
Izone International Ltd.:

We have examined the balance sheet of Izone International Ltd. as at February 28, 1989 and the statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at February 28, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

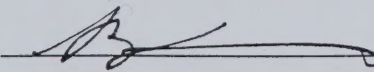
Chartered Accountants

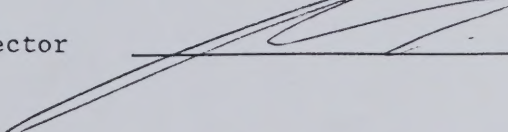
IZONE INTERNATIONAL LTD.

BALANCE SHEET

	February 28	
	1989	1988
ASSETS		
Current assets:		
Prepaid expenses	\$ 3,713	\$ 9,233
Inventory, at cost	<u>6,141</u>	<u>1,992</u>
	9,854	11,225
Due from (to) related company (Notes 3 and 9)	51,765	(22,385)
Investment in mining exploration joint venture (Note 4)	488,897	450,047
Fixed assets, net of accumulated depreciation of \$7,749 (1988 - \$3,621)	16,689	13,105
Equipment under capital lease, net of accumulated amortization of \$1,921 (1988 - \$961)	7,691	8,651
Incorporation costs	<u>1,410</u>	<u>1,410</u>
	<u>\$ 576,306</u>	<u>\$ 462,053</u>
LIABILITIES		
Current liabilities:		
Bank indebtedness	\$ 902	\$ 457
Accounts payable	<u>143,268</u>	<u>124,064</u>
	144,170	124,521
Due to shareholders (Note 5)	18,872	39,430
Obligation under capital lease (Note 6)	<u>5,647</u>	<u>6,945</u>
	168,689	170,896
SHAREHOLDERS' EQUITY		
Share capital (Note 7):		
Authorized-		
20,000,000 shares without par value		
Issued-		
15,096,165 shares (1988 - 12,333,236)	6,537,162	5,828,146
Shares subscribed, not issued-		
Nil (1988 - 825,000 shares)	<u>-</u>	<u>185,000</u>
	6,537,162	6,013,146
Deficit	<u>6,129,545</u>	<u>5,721,989</u>
	407,617	291,157
Commitments (Note 4)		
	<u>\$ 576,306</u>	<u>\$ 462,053</u>

APPROVED BY THE BOARD:


 Director

 Director

IZONE INTERNATIONAL LTD.

STATEMENT OF OPERATIONS AND DEFICIT

	<u>Year ended February 28</u>	
	<u>1989</u>	<u>1988</u>
Expenses:		
Salaries, wages and consulting fees	\$ 129,615	\$ 61,495
Travel and promotion	85,962	88,023
Rent and office	81,435	42,205
Telephone and telex	30,052	25,469
Legal fees	28,811	14,446
Shareholder information	24,417	17,854
Other	18,647	20,638
Research and development	19,127	-
Audit and accounting	17,093	23,800
Insurance	10,373	6,628
Depreciation	<u>5,032</u>	<u>4,318</u>
Loss from operations	450,564	304,876
Cash received on settlement of investment previously written off	<u>60,000</u>	<u>-</u>
Loss before write-off of investments	390,564	304,876
Write-off of investment in Izone Corporation (Note 8)	16,992	98,953
Other	<u>-</u>	<u>(2,250)</u>
	<u>16,992</u>	<u>96,703</u>
Loss before extraordinary item	407,556	401,579
Extraordinary item	<u>-</u>	<u>258,807</u>
Loss for year	407,556	660,386
Deficit, beginning of year	<u>5,721,989</u>	<u>5,061,603</u>
Deficit, end of year	<u>\$6,129,545</u>	<u>\$5,721,989</u>
Loss per share:		
Before extraordinary item	<u>\$ 0.03</u>	<u>\$ 0.03</u>
After extraordinary item	<u>\$ 0.03</u>	<u>\$ 0.06</u>



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IZONE INTERNATIONAL LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended February 28</u>	
	<u>1989</u>	<u>1988</u>
Cash provided by (used in) operating activities:		
Operations-		
Loss before extraordinary item	\$(407,556)	\$(401,579)
Items not affecting cash-		
Depreciation	5,032	4,318
Write-off of provision for losses of Izone Corporation	-	(68,600)
	(402,524)	(465,861)
Changes in non-cash working capital-		
Prepaid expenses	5,520	(9,233)
Inventory	(4,149)	(1,992)
Accounts payable	19,204	(66,344)
	20,575	(77,569)
	(381,949)	(543,430)
Cash provided by (used in) financing activities:		
Issue of shares for-		
Cash	518,166	972,317
Mineral claims' option payments	5,850	4,080
Due to shareholders	(20,558)	8,197
Obligation under capital lease	(1,298)	6,945
Due from (to) related company	(74,150)	335
	428,010	991,874
Cash provided by (used in) investment activities:		
Purchase of fixed assets	(7,656)	(15,982)
Purchase of fixed assets by capital lease	-	(9,612)
Increase in investments	-	(238,011)
Proceeds on disposal of property and mineral claims	-	5,900
Investment in joint venture	(38,850)	(191,448)
	(46,506)	(449,153)
Decrease in cash	(445)	(709)
(Bank indebtedness) cash, beginning of year	(457)	252
Bank indebtedness, end of year	\$ (902)	\$ (457)

IZONE INTERNATIONAL LTD.

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 1989

1. Operations and going concern:

The Company is primarily involved in the development and marketing of ozone generating devices. During the year, the Company completed the sale and delivery of one machine. However, at February 28, 1989, the Company had not commenced commercial production.

The Company has a working capital deficiency of \$134,316 at February 28, 1989. The Company's ability to meet its obligations, including its obligations under the mining exploration joint venture agreement (Note 4), is dependent upon obtaining necessary financing to support its required expenditures until such time as profitable operations are achieved. Subsequent to February 28, 1989, the Company has received \$50,000 on subscriptions for a private placement of shares (Note 10).

2. Significant accounting policies:

(a) Mining exploration joint venture-

The investment in the mining exploration joint venture represents the Company's proportionate share of costs. The joint venture's activities are in property exploration and accordingly, the recovery of the cost of mineral claims and the realization of exploration expenditures thereon is dependent upon the success of the exploration program.

(b) Fixed assets and depreciation-

Fixed assets are recorded at cost; and depreciation is provided on a straight-line basis over their estimated useful lives.

(c) Leases-

Leases have been classified as either capital or operating. A lease which eventually transfers ownership of the leased asset by the end of the lease term is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to earnings as incurred. The asset recorded as a capital lease is amortized on a straight-line basis over its estimated useful life.

(d) Loss per share-

Loss per share is determined using the weighted average number of shares outstanding during the year.

3. Due from (to) related company:

This amount represents net advances due from (to) Adams Exploration Ltd., a company related by common directors and a co-venturer in the mining exploration joint venture. These advances are without interest and have no fixed terms of repayment.

4. Investment in mining exploration joint venture:

In 1985, the Company entered into a joint venture agreement with Adams Exploration Ltd. and Clifton Resources Limited to carry out exploration on mineral claims situated in the Kamloops Mining District of British Columbia (Adams Plateau). Under the terms of the joint venture agreement, the companies have agreed to pool certain of their contiguous mineral claims' interests for a period of five years, and each has a one-third interest in the joint venture subject to the retention of certain net smelter return overrides.

Under the terms of the joint venture agreement, the Company was required to make certain cash contributions to the joint venture which remain unpaid at February 28, 1989. The amount of the unfunded contribution has yet to be determined and is not reflected in these financial statements. Failure by the Company to fulfill its obligations under the joint venture agreement could impair the Company's percentage beneficial interest in the joint venture and the underlying mineral claims.

5. Due to shareholders:

Amounts payable to shareholders are unsecured, non-interest bearing and do not have a fixed repayment schedule.

6. Lease commitments:

The future minimum lease payments under capital and operating leases of the Company, together with its obligations under a capital lease (after deduction of interest on the minimum lease payments) are as follows-

<u>Fiscal year</u>	<u>Capital lease</u>	<u>Operating lease</u>
1990	\$2,652	\$11,824
1991	2,652	11,824
1992	2,652	7,883
1993	<u>1,989</u>	<u>-</u>
Total minimum lease payments	9,945	<u>\$31,531</u>
Less: Amount representing interest	<u>3,000</u>	
	6,945	
Less: Current portion of principal payable	<u>1,298</u>	
Obligation under capital lease	<u>\$5,647</u>	

7. Share capital:

(a) Issued and outstanding-

	<u>Issued</u>	
	<u>Number of shares</u>	<u>Amount</u>
Balance, February 28, 1988	12,333,236	\$5,828,146
Stock options exercised	907,500	245,595
Warrants exercised	534,318	159,048
Issued for cash	1,298,611	298,523
Issued for mineral claims	<u>22,500</u>	<u>5,850</u>
Balance, February 28, 1989	<u>15,096,165</u>	<u>\$6,537,162</u>

(b) Stock options-

Stock options have been granted to key employees and directors. The following options were outstanding at February 28, 1989-

<u>Number of shares</u>	<u>Option price</u>	<u>Expiry date</u>
125,000	\$0.45	April 22, 1989
50,000	\$0.70	May 15, 1989
<u>506,500</u>	\$0.37	June 21, 1990
<u>681,500</u>		

The options at \$0.45 and \$0.70 per share have since expired.

- (c) A resolution will be put forward for approval by the shareholders at the Company's next Annual General Meeting to increase authorized share capital to 30,000,000 shares.

8. Write-off of investment in Izone Corporation:

The Company does not expect to recover its investment in Izone Corporation and consequently the Company-

- (a) had written-off its 81.7% interest in Izone Corporation of \$753,361 in a prior year; and
- (b) has written-off all further expenditures relating to this corporation.

9. Related party transactions:

In addition to related party transactions and balances disclosed elsewhere in the financial statements, during the year the Company had the following transactions with related parties-

- (a) Shared office services with Adams Exploration Ltd. a company related by way of common directors and as a co-venturer in the mining exploration joint venture.
- (b) Made advances to the company referred to in (a) above.

10. Subsequent event:

Subsequent to February 28, 1989, cash of \$50,000 was received for subscriptions to 333,333 shares at \$0.15 per share with warrants attached thereto for a further 333,333 shares at \$0.20 per share. This private placement is subject to regulatory approval.

11. Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in 1989.

